

**REPORT OF THE AUDIT OF THE
ROCKCASTLE COUNTY
SHERIFF**

**For The Year Ended
December 31, 2009**



**CRIT LUALLEN
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE ROCKCASTLE COUNTY SHERIFF

**For The Year Ended
December 31, 2009**

The Auditor of Public Accounts has completed the Rockcastle County Sheriff's audit for the year ended December 31, 2009. Based upon the audit work performed, the financial statement presents fairly, in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting.

Financial Condition:

Excess fees decreased by \$14,334 from the prior year, resulting in excess fees of \$5,459 as of December 31, 2009. Revenues decreased by \$12,057 from the prior year and expenditures increased by \$2,277.

Report Comments:

2009-01 The Sheriff's Office Lacks Adequate Segregation Of Duties Over Cash Receipts

2009-02 The Sheriff's Office Should Improve Internal Controls Over ATM Transactions Out Of The Federal Drug Fund Forfeiture Account

Deposits:

The Sheriff's deposits were insured and collateralized by bank securities or bonds.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Buzz Carloftis, Rockcastle County Judge/Executive
The Honorable Michael E. Peters, Rockcastle County Sheriff
Members of the Rockcastle County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the Sheriff of Rockcastle County, Kentucky, for the year ended December 31, 2009. This financial statement is the responsibility of the Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the Sheriff for the year ended December 31, 2009, in conformity with the regulatory basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated October 1, 2010 on our consideration of the Rockcastle County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



The Honorable Buzz Carloftis, Rockcastle County Judge/Executive
The Honorable Michael E. Peters, Rockcastle County Sheriff
Members of the Rockcastle County Fiscal Court

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discusses the following report comments:

2009-01 The Sheriff's Office Lacks Adequate Segregation Of Duties Over Cash Receipts

2009-02 The Sheriff's Office Should Improve Internal Controls Over ATM Transactions Out Of
The Federal Drug Fund Forfeiture Account

This report is intended solely for the information and use of the Sheriff and Fiscal Court of Rockcastle County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these interested parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

October 1, 2010

ROCKCASTLE COUNTY
MICHAEL E. PETERS, SHERIFF
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2009

Revenues

State - Kentucky Law Enforcement Foundation Program Fund (KLEFPF)		\$	10,658
State Fees For Services:			
House Bill 452	\$	10,016	
Fee Claims		<u>6,876</u>	16,892
Fiscal Court			
Payroll Reimbursement		94,053	
Fuel Reimbursement		<u>24,000</u>	118,053
County Clerk - Delinquent Taxes			1,978
Commission On Taxes Collected			131,842
Fees Collected For Services:			
Auto Inspections		4,234	
Serving Papers		22,620	
Carrying Concealed Deadly Weapon Permits		4,951	
Arrest Fees		3,199	
Office Fees		1,060	
Prisoner Transports		9,837	
10% Add-On Fees		18,935	
Advertising Fees		<u>7,788</u>	72,624
Other:			
Miscellaneous			6,122
Interest Earned			49
Borrowed Money:			
State Advancement		65,000	
Bank Note		<u>42,000</u>	<u>107,000</u>
Total Revenues			465,218

The accompanying notes are an integral part of this financial statement.

ROCKCASTLE COUNTY
MICHAEL E. PETERS, SHERIFF
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
For The Year Ended December 31, 2009
(Continued)

Expenditures

Operating Expenditures:

Personnel Services-

Deputies' Salaries \$ 190,613

Part-Time Salaries 20,135

Other Salaries 25,567

Employee Benefits-

Employer's Share Social Security 22,044

Contracted Services-

Advertising

Vehicle Maintenance and Repairs 2,742

Materials and Supplies-

Office Materials and Supplies 6,804

Uniforms 1,235

Auto Expense-

Gasoline 278

Other Charges-

Dues 425

Postage 433

Carrying Concealed Deadly Weapon Permits 1,115

Cellular Phone 1,929

Accounting Expense 1,650

Utilities 1,977

Miscellaneous 2,835 \$ 279,782

Debt Service:

State Advancement 65,000

Notes 42,000

Interest 653 107,653

Total Expenditures \$ 387,435

Net Revenues 77,783

Less: Statutory Maximum 72,324

Balance Due Fiscal Court at Completion of Audit \$ 5,459

The accompanying notes are an integral part of this financial statement.

ROCKCASTLE COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2009

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the Sheriff as determined by the audit. KRS 134.310 requires the Sheriff to settle excess fees with the fiscal court at the time he files his final settlement with the fiscal court.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive) at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2009 services
- Reimbursements for 2009 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2009

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

ROCKCASTLE COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2009
(Continued)

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer, defined benefit pension plan that covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members. Benefit contributions and provisions are established by statute.

Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 9 percent of their salary to be allocated as follows: 8% will go to the member's account and 1% will go to the KRS insurance fund. The county's contribution rate for nonhazardous employees was 13.5 percent for the first six months and 16.16 percent for the last six months.

Hazardous covered employees are required to contribute 8 percent of their salary to the plan. Hazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 9 percent of their salary to be allocated as follows: 8% will go to the member's account and 1% will go to the KRS insurance fund. The county's contribution rate for hazardous employees was 29.50 percent for the first six months and 32.97 percent for the last six months.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008 must meet the rule of 87 (members age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55. For hazardous employees who begin participation on or after September 1, 2008 aspects of benefits include retirement after 25 years of service or the member is age 60, with a minimum of 60 months service credit.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

ROCKCASTLE COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2009
(Continued)

Note 3. Deposits

The Rockcastle County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Rockcastle County Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of December 31, 2009, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 4. State Asset Forfeiture Account

During 2009, the Sheriff's office received proceeds from the confiscation, surrender, or sale of real and personal property involved in state drug-related convictions. These funds are to be used for law enforcement activities and are not available for excess fee purposes. As of January 1, 2009, this account had a beginning balance of \$60. During 2009, funds totaling \$11,145 were received and \$8,499 was expended, leaving a balance of \$2,706 as of December 31, 2009.

Note 5. Federal Asset Forfeiture Account

During 2009, the Sheriff's office received proceeds from the Federal Government for participating in investigations or prosecutions that resulted in forfeited federal drug money. These funds are to be used for law enforcement activities, including training, equipment and operations, facilities and equipment, drug education and awareness, etc. These funds are not available for excess fee purposes. As of January 1, 2009, this account had a beginning balance of \$319,532. During 2009, funds totaling \$47,807 were received and \$144,967 was expended, leaving a balance of \$222,372 as of December 31, 2009.

Note 6. Shop With A Cop Account

During 2009, the Sheriff's office received monetary donations to be deposited into the Shop With A Cop account. Receipts from this account are to be spent on the Christmas gifts for under privileged children. As of January 1, 2009, this account had a beginning balance of \$69. During 2009, funds totaling \$1,387 were received and \$1,002 was expended, leaving a balance of \$454 as of December 31, 2009.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Buzz Carloftis, Rockcastle County Judge/Executive
The Honorable Michael E. Peters, Rockcastle County Sheriff
Members of the Rockcastle County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the Rockcastle County Sheriff for the year ended December 31, 2009, and have issued our report thereon dated October 1, 2010. The County Sheriff's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Rockcastle County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying comments and recommendations, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying comments and recommendations as items 2009-01 and 2009-02 to be material weaknesses.



Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Rockcastle County Sheriff's financial statement for the year ended December 31, 2009, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

The Rockcastle County Sheriff's response to the findings identified in our audit is described in the accompanying comments and recommendations. We did not audit the Sheriff's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, Rockcastle County Fiscal Court, others within the entity, and the Department of Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

October 1, 2010

COMMENTS AND RECOMMENDATIONS

ROCKCASTLE COUNTY
MICHAEL E. PETERS, SHERIFF
COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2009

INTERNAL CONTROL - MATERIAL WEAKNESS:

2009-01 The Sheriff's Office Lacks Adequate Segregation Of Duties Over Cash Receipts

The Sheriff's Office lacks an adequate segregation of duties over cash receipts. During our review of internal controls, we noted that the Sheriff employs two bookkeepers. One bookkeeper is responsible for opening mail, preparing bank deposits and preparing the daily checkout sheet, while the other bookkeeper is responsible for posting receipts to the receipts ledger. Both bookkeepers are responsible for collecting cash.

A limited budget places restrictions on the number of employees the Sheriff can hire. When faced with a limited number of staff, strong compensating controls should be in place to offset the lack of segregation of duties. The implementation of compensating controls is essential for providing protection from asset misappropriation and/or inaccurate financial reporting. Additionally, proper segregation of duties protects employees in the normal course of performing their responsibilities.

To adequately protect against the misappropriation of assets and/or inaccurate financial reporting, the Sheriff should separate the duties of opening mail, preparing bank deposits, preparing the daily checkout sheet, and collecting cash receipts. If due to a limited number of staff this is not feasible, the Sheriff should implement the following compensating controls in order to offset this deficiency:

- The Sheriff should recount cash and agree to the deposit ticket. The Sheriff should document this by initialing the deposit ticket
- The Sheriff should perform surprise cash counts
- The Sheriff should compare quarterly reports to the receipts and disbursements ledgers. The Sheriff should document this by initialing both the receipts and disbursements ledgers and the quarterly report.

Sheriff's Response: No Response.

ROCKCASTLE COUNTY
MICHAEL E. PERTERS, SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2009
(Continued)

INTERNAL CONTROL - MATERIAL WEAKNESS: (Continued)

2009-02 The Sheriff's Office Should Improve Internal Controls Over ATM Transactions Out Of The Federal Drug Fund Forfeiture Account

During calendar year 2009, the Sheriff's office withdrew \$38,940 from the Federal Drug Fund Forfeiture account via ATM transactions. This money was used to make drug buys and pay informants. The Sheriff's office maintains a log of all informants which includes: the date, case number, amount paid informant, the informant's name, drugs to be purchased, along with the deputy's signature and the informant's signature.

In order to test these transactions, auditor requested the informant log and the case files for the month of September. After reviewing this information, auditor determined that additional testing needed to be done, as there was a large variance between the documented expenditures and the amounts withdrawn for the month. In order to expand testing, auditor requested the informant log and case files for August. Auditor again noted a large variance between the amounts documented and withdrawn. At this time, auditor asked to view the entire informant log for the calendar year 2009.

Per review of the informant log for the calendar year, sheets were separately maintained and were not in any certain order, leaving doubt as to the completeness of the log. Also noted, although the informant sheets had a section for the case number, this section was left blank, making it impossible for the auditor to determine what transaction related to which cases. Further, the ATM receipts included copies of the money withdrawn, but no documentation to relate the transactions to a case.

In order to improve internal controls over ATM transactions, auditor recommends that the Sheriff maintain better order over the informant log by having sheets pre-numbered and organized together in numerical order. Auditor further recommends the Sheriff amend the current informant log to include the amount of drug buy money given to the informant and filling in the case number. Auditor also recommends that case numbers be documented on the ATM transaction receipts so that each transaction can be related to a case.

Sheriff's Response: Will change logs to reflect each C.I. and amounts paid for purchases with case numbers and payments to C.I.'s.

